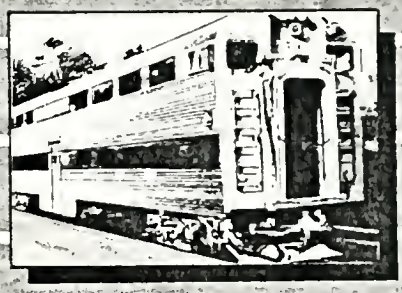
Regional Transportation Authority

Key Indicator Report

February 1987



Issued April 1987

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CHIEF FINANCIAL OFFICER'S REPORT

During the past month the Finance Department continued to work on resolving the major outstanding issues with the service boards. The primary issues which must be addressed are:

- accounting and budgeting treatment for claims reserves,
- reconciliation of prior year revenues, and
- development of proposed projects for program reserve funding.

In addition, staff effort continued to be directed toward the implementation of the 1987 budget and program, including:

- revision of the Key Indicator Report, and
- development of a ten year financial and capital investment plan.

Claims Reserves. As I reported last month, we drafted a proposal that outlines an alternative accounting treatment for such reserves and submitted it for review by the Government Finance Officers Association (GFOA). The purpose of the proposal is to ensure greater consistency among the service boards. The importance of this issue was highlighted during the 1986 budget process as projected claims reserves approached $60 million. The GFOA has presented our proposal to the Government Accounting Standards Board and we expect to receive a formal response in the very near future.

Revenue Reconciliation. Considerable progress has been made at the staff level on this issue. The service boards have submitted written responses to our stated position on revenues and payments for 1984 - 1986, and we now have a much clearer understanding of the source of the differences between RTA's books and those of the service boards. It is apparent that a resolution of this issue will ultimately involve Board policy decisions. Currently, staff is working with our outside auditors to finalize the analysis in terms of the potential impacts on our 1986 audited financial statements. We have also requested the service boards to hold off on completing their 1986 audits for this reason.

Program Reserve. As I indicated last month, I cannot recommend any major allocation of program reserve funds prior to the settlement of the revenue reconciliation issue. Nevertheless, we are proceeding to work with the service boards on several important projects for which program reserve funding is contemplated should it be available. These projects include the replacement of the Pace Grumman buses, the Metra studies mandated by the ICG acquisition ordinance and the CTA System Structure and Utilization Study that would enhance our understanding of our second largest market. The significance of this latter study is underscored by the special report on "Market Level Analysis of Ridership" that will be presented at the Finance Committee Meeting.

Revisions to Key Indicator Report. We have attempted to respond to the many suggestions and comments made regarding the new format and content presented to the Committee in March. In addition, we have now received the majority of information requested in the 1987 budget spreads from the service boards. This data was not generally available last month and imposed a severe constraint on the analysis. I believe that this report is a more representative example of the concept that we are attempting to implement this year. That is, an executive style report that provides in less than 15 pages all of the key information needed by the Board on a monthly basis as well as concise analysis of emerging issues. I should note that for the first time we have incorporated a "flash" report for financial results. Although this report covers the February period of operations, the preliminary financial results for March are summarized in the section on RTA Financial Position.

Ten Year Financial and Capital Investment Plan. The development of this plan is essentially being carried out under the aegis of the Engineering Study in concert with the Financial Advisor. Both of these efforts are proceeding rapidly. The engineering consultant (Parsons Brinkerhoff) has already met at least once with all of the major actors in the capital programming process and have received excellent cooperation to date. A Phase I report is scheduled to be submitted on May 13. The Financial Advisor is proceeding with the development of a preliminary 10 year financial plan which will help us to refine the 10 year capital program that was recently submitted to the Legislature.

Chicago Transit Authority

Bus Purchase. The CTA Board approved the purchase of 449 buses from the MAN Company at their April Board meeting. Staff projected that this purchase will allow CTA to reduce maintenance costs and cut fleet size by at least 20 buses.....Mobility Limited Program. The CTA Board approved an ordinance authorizing an increase of 50 cents per trip to the contractors providing special services to the disabled. This action was necessary to accommodate increases in the contractors' costs, including increased liability insurance costs. However, even with this increase and the expected implementation of 24 hour service by October, 1987, CTA staff projects that this program will be within its 1987 budget of $9.6 million.....Capital Program. The CTA Board approved an ordinance to authorize the application for financing of CTA's 1987 Capital Improvement Program. Among the major requests are the initial funding for 278 rail car replacements and the building of a new bus garage to replace the 69th Street Garage..... New Uniforms. CTA's new operating employee uniforms were unveiled at the April Board meeting..... Customer Service. The CTA Board approved an innovative Customer Service program that will provide news, weather, and travel information at CTA's busiest rail stations through video monitors placed in the stations.....Security Force. The CTA has reported that the police unit formed to patrol CTA buses made over 200 arrests in its first month of operation.

Metra Commuter Rail Division

Northwestern Station. Metra opened their new Northwestern rail station in the recently completed Northwestern building. The station serves approximately 1.8 million commuters per month.....Rail Accessibility Study. Metra and RTA staffs have completed consultant interviews for the Rail Accessibility Study and are preparing recommendations for RTA Mobility Limited Committee review.....Joint Marketing Venture. Citicorp has leased a rail car from Metra for a Citicorp test marketing campaign which will offer persons opening new accounts one month of club car style service. The promotion will be offered only on the Chicago Northwestern Northwest line.....ICG. Effective May 1, Metra will assume ownership and operating responsibility of the ICG electric commuter.

Pace Suburban Bus Division

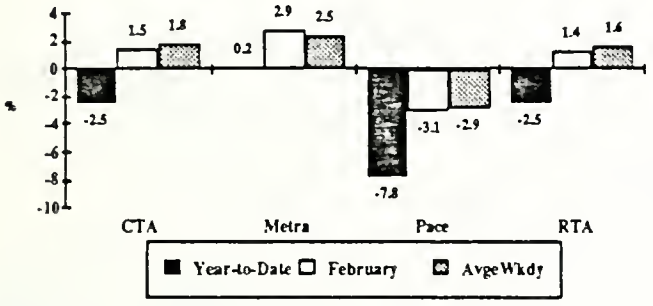
504 Plan. Public hearings for the UMTA Mobility Limited Plan were held in early April.....Pace/APTA Maintenance Rodeo. Pace has been selected to host an APTA National Bus Maintenance Rodeo this fall. The Rodeo provides mechanics from around the country an opportunity to competitively test their skills against one another.....Pace Capital Program. Public hearings on Pace's 1987 Capital Program of Projects were held in April.....Markham Garage. Opening of the new garage and maintenance facility for the Pace South Division will be delayed due to problems in completing utility hook-ups.

RTA SYSTEM RIDERSHIP

Systemwide

February is the first month since the 1986 fare increase in which a comparison can be made between two months with similiar fare structures. Ridership performance has improved for each of the Service Boards with the exception of Pace. Pace ridership declined on both a monthly and year to date basis. Both CTA and Pace continue to show a negative performance on a year to date basis reflecting the ridership declines experienced in January.

RTA % Change in Ridership By Division
Year-to-Date and February 1987 vs. 1986

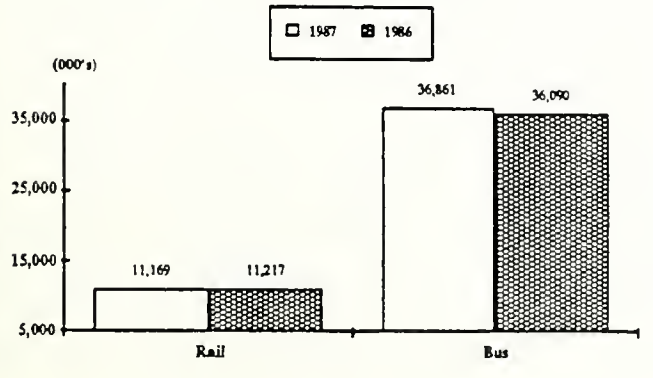


The analysis of Service Board ridership performance that follows is for the month of February only. January results are excluded to permit a more balanced analysis.

CTA

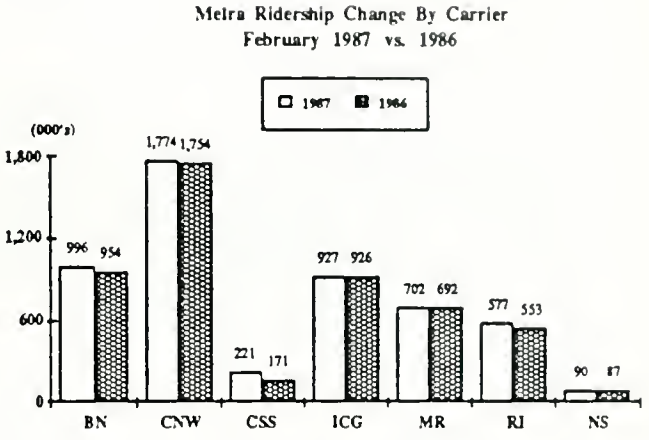
CTA rail ridership remained relatively stable in February declining by a slight 0.4%. Bus ridership climbed 2.1% for February. February's performance compares very favorably to CTA's 1986 performance which finished the year with a 4.7% decline for bus, and a 6.8% decline for rail.

CTA Ridership Change By Carrier
February 1987 vs. 1986



Metra

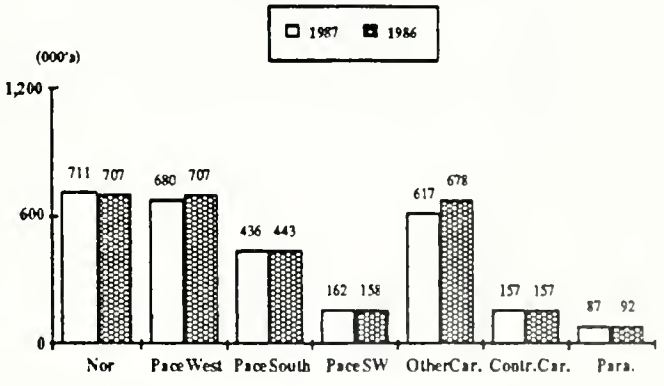
Metra Ridership Change By Carrier
February 1987 vs. 1986



All Metra carriers continue to experience good ridership performance. The South Shore led the carriers with a 29.2% increase, or 50,000 additional passengers in February. This can be attributed to their method of accounting for pass sales on a cash basis. Burlington Northern posted the second largest increase with 42,000 additional riders or 4.4% for the month. Metra's largest carrier, CNW, had a modest 1.2% increase for additional 20,000 passengers for the month of February.

Pace

Pace Ridership Change By Carrier
February 1987 vs. 1986



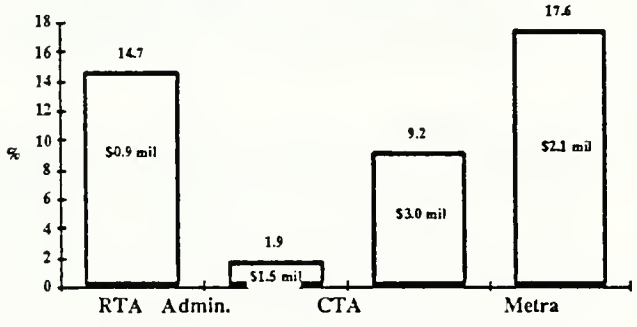
Pace system ridership continued to decline in February, although Pace's largest carrier, Nortran, showed a slight 0.7% increase for the month. Pace West and Pace South each showed declines in ridership of 3.9% and 1.5% respectively. The category of other carriers, which is comprised primarily of satelite city operations, experienced a 9.0% or 61,000 passenger decline, the largest for the Pace system.

RTA FINANCIAL POSITION

March Preliminary

Systemwide financial performance continues to be very good for the year. Public Funding for all three Service Boards and RTA administrative expenses are under budget while Sales tax figures for January are positive against budget. Current projections show that budget surpluses will continue to grow in March

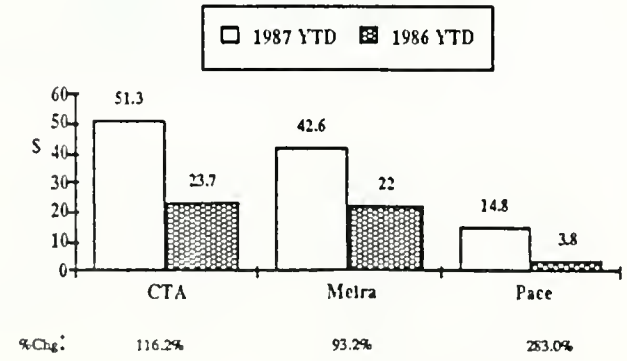
RTA Admin. & Service Board
Projected March Surplus (Deficit)



Financial Position

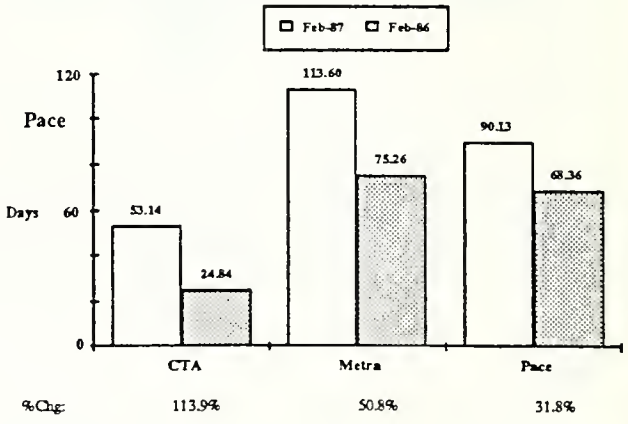
Financial performance as reported through February shows the cash positions of the service boards significantly improved with higher cash balances when compared to 1986. The service boards have experienced significant growth in both working cash and claims reserves. It should be noted that CTA's cash position does not contain proceeds from its working cash notes which are due to be retired in August.

Service Board Cash Position
Through February 1987 vs. 1986



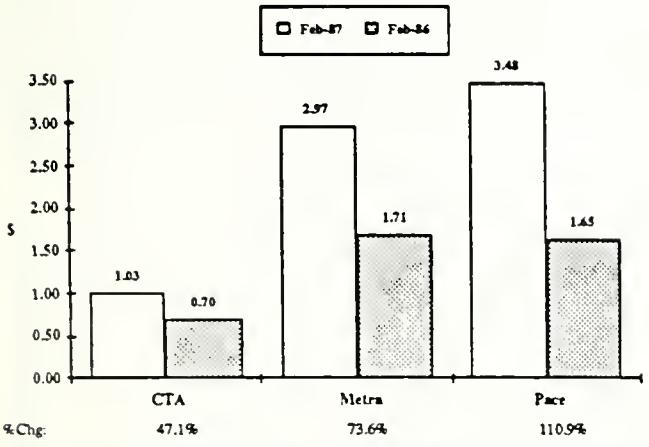
One means for measuring the strength of the Service Boards' cash positions is the "defensive interval" ratio. The defensive-interval ratio measures the time span over which a firm can operate on its most liquid assets. It is computed by dividing defensive assets (cash and receivables) by projected daily operating expenses. Metra and Pace exhibit the greatest ability to fund their operations, but CTA had the largest percentage increase in this ratio over the last year.

Service Board Defensive Interval
(Cash and Receivables/ Daily Operating Expense)



The working capital, or current ratio, represents the ability of a business to meet its current liabilities with the cash flow that will result from its current assets. Pace has shown a dramatic increase in its current ratio over the last year with an increase of approximately 110%. CTA and Metra have achieved smaller but equally significant increases.

Service Board Current Ratio Analysis
(Current Assets/Current Liabilities)



As the notes below indicate there are a number of issues with the Service Board's concerning their financial statements. Some of these issues deal with the prior years reconciliation process currently under review with the Service Board's. Other issues concern the appropriate handling of Claims Reserves and the treatment of deferred operating and financial assistance. The ultimate resolution of these issues may have a material effect on the analysis presented here. The notes below should be therefore, be considered as integral to this analysis.

Notes

In an attempt to make the above analysis more understandable and meaningful, it was necessary to make certain adjustments the financial statements of the Service Boards to ensure maximum consistency.

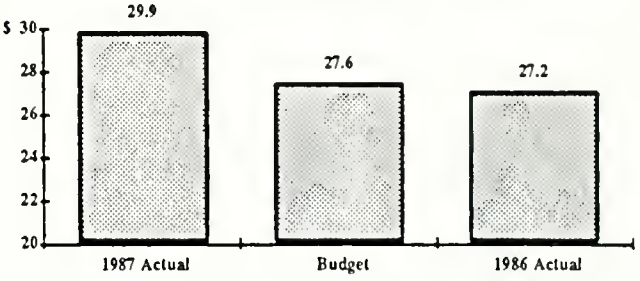
1. Some Service Boards include disputed receivables from the RTA in current assets. Because RTA does not recognize these as liabilities, they were removed from current assets.
2. CTA working cash notes of $40 million is excluded from the defensive-interval ratio. CTA is obligated to retire these notes in August, and would not be expected to use this cash for operating expenses.
3. All other cash, including claims cashs reserve , is included in current assets.
4. Each Service Board's current liabilities includes estimated claims expense due in the next year.

Notes (con.)

5. Consistent with their audited 1985 statements, only the current portion of accrued payroll and related expenses is included in CTA's current liabilities.
6. Deferred operating and financial assistance is excluded from current liabilities for all of the Service Boards.

Sales Tax

January Sales Tax
1987 Actual/Budget/1986 Actual

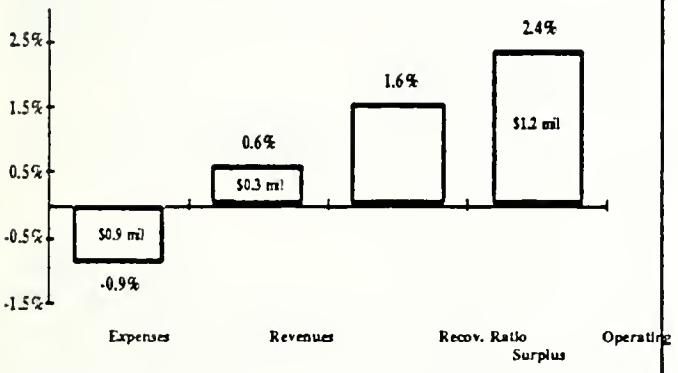


Due to the lag in the reporting of Sales Tax only one month of sales tax revenue is available for reporting. January sales tax results show an increase over budget. This is somewhat surprising since most economists had projected the state's economy to be sluggish in January. Sales tax is 29.9 million up 8.4% over budget for Janaury, and up 10.2 % over the prior year.

Resource Efficiency

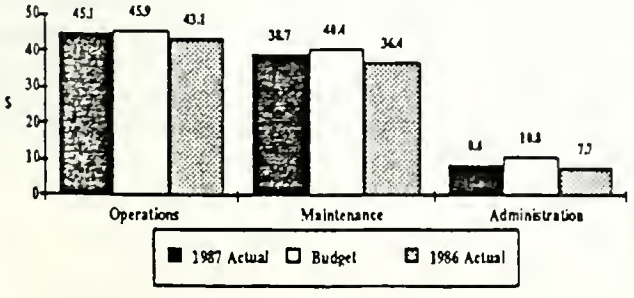
CTA's operating performance in February compared to budget showed a significant improvement from January's performance. System-generated revenues through February were favorable by $0.3 million or 0.6%. The bulk of this positive performance is due to favorable investment income. Operating expenses for the first two months of 1987 were favorable by $0.9 million or 0.9%. Fuel, Electric Power and All Other Expenses performed favorably by 25.0%, 12.2% and 8.7% respectively. An unfavorable variance in Labor expenses of $0.7 million or 1.0% partially offset the favorable performance.

CTA Actual vs. Budget
February 1987 YTD



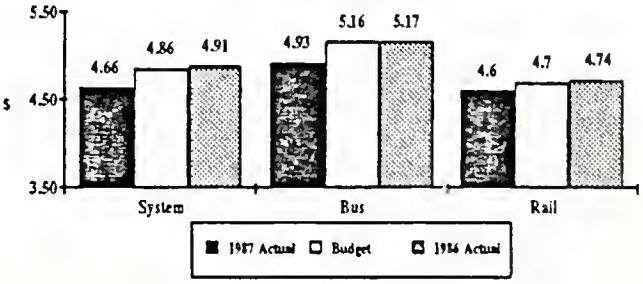
The primary reasons for the positive actual vs. budget performance in operations are favorable results in the special services program and in support areas. The lower expenses attributed to differences in the timing and billing of expenses. The favorable budgetary performance in maintenance is attributable to positive performances in bus maintenance, facilities maintenance and maintenance support areas. The significant favorable variance in Administration is primarily attributable to the timing and billing of expenses and vacancies.

CTA Functional Expense Breakdown
1987 Actual/Budget/1986 Actual
YTD February 1987



The increase in Operations from 1986 to 1987 is mainly due to higher Special Services expenses and increased support expenses. Most of the increase in Maintenance is due to higher rail maintenance expenses, which can be partially traced to the fire and de-coupling problems that have plagued CTA's rail fleet. In addition, although the actual expenditures are up for 1987, when viewed on an expense per mile basis both bus and rail are down compared to both 1987 budget and 1986 actual. However, an apparent discrepancy in miles reported so far this year with those reported last year is the main factor. Most of the reporting difference is in the rail mode as mileage reported this year over last year reflects an increase of 13.5%. This problem is currently being reviewed with CTA staff.

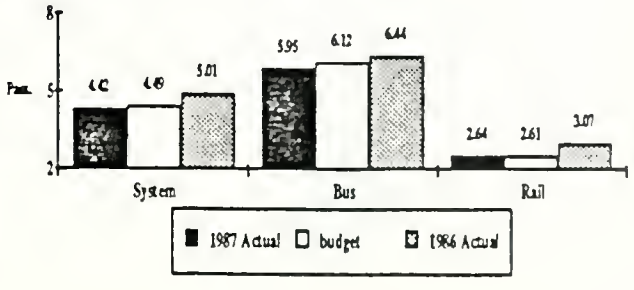
CTA Operating Expense Per Mile
1987 Actual/Budget/1986 Actual
YTD February 1987



Service Effectiveness

Performance through February has closely matched the 1987 budget for passengers per revenue mile. Favorable ridership was offset by higher than budgeted vehicle miles. Comparing 1987 results with 1986 results, ridership is down by 2.4% on a revenue per mile basis. As reported above this appears to be due to a problem in mileage reporting rather than an actual increase in units of service provided.

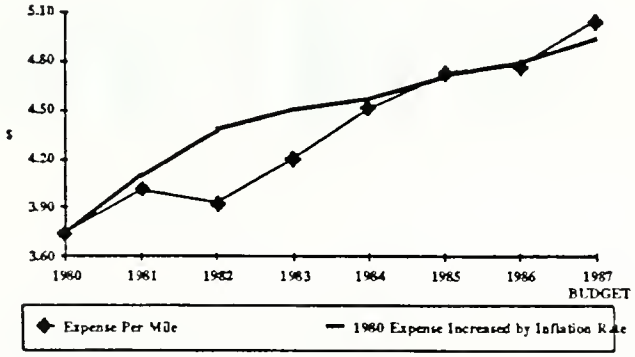
CTA Passengers Per Revenue Mile
1987 Actual/Budget/1986 Actual
YTD February 1987



Focus: Trend Analysis of CTA Expense Components

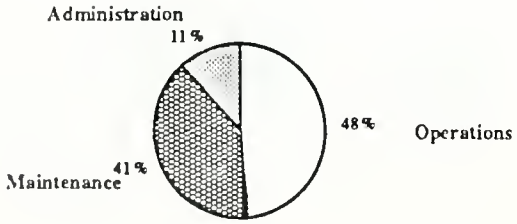
Following is a brief analysis of the CTA's operating expenses since 1980. The objective is to measure productivity at an aggregate program level (Operations, Maintenance and Administration). This will be done by measuring the level of inputs by program area (operating expenses) with the level of outputs (vehicle miles) over the last seven years. The first section of the analysis looks athe the CTA as a whole and the factors which have significantly impacted on all of the program components. The next section breaks the CTA into the three areas listed above with further analysis of those factors that have affected each particular program.

Total CTA Expense Per Mile
1980 - 1987 Budget



On an total expenses basis, CTA's 1986 operating expenses were 10.6% lower than inflated 1980 expenses. However, when computed on a service level output basis, (i.e., per revnue mile) 1986 operating expenses about equalled 1980 operating expenses increased by the inflation rate. 1987 budgeted expenses would push costs slightly above the projected inflation rate. CTA dedicates almost half of its resources to operations with most of the balance dedicated to maintenance.

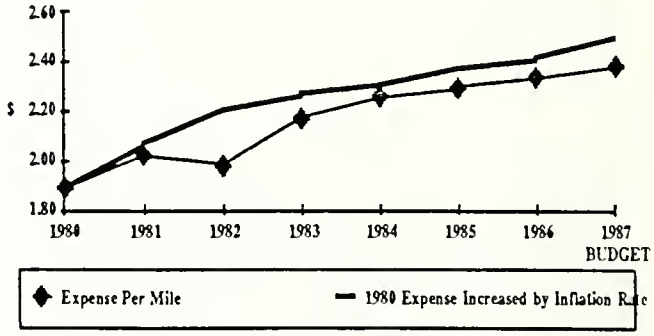
1986 Expense per Mile Components



In the crisis years of 1981-82, CTA reduced expenses in all areas with Operation and Administration absorbing the most significant reductions. Factors that have produced savings in all of the program areas are the pension moratorium (1982-1984), revised cost-of-living formula (1980-1984) and decreased workers compensation and unemployment insurance costs. Factors that have contributed to expenses growth above the inflation rate are increased materials and "other" expenses, increased FICA, increased hospitilization costs, higher claims expenses, increased paid absences and recent pension increases (1985-present).

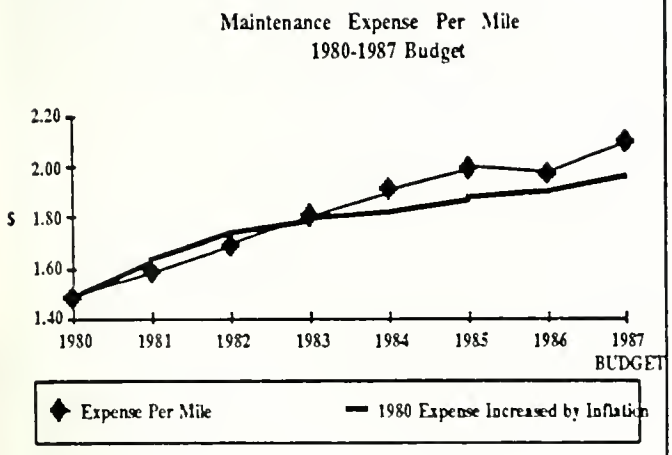
Operations

Operations Expense Per Mile
1980 - 1987 Budget



Operations encompasses all scheduled transit operations personnel as well as supervision and clerical support. Expenses in CTA Operations relative to the inflation rate have been favorable. The significant factors contributing to the favorable performance through 1984 were the pension moratorium and the revised cost-of-living formula. More recently, the introduction of part-time operators and lower unemployment insurance and workers' compensations expenses have helped to contain costs. Partially offsetting these cost containment factors has been the growth in Operations Support expenses attributable to increased labor hours and the full assumption of Special Services expenses which in prior years had been distributed to the responsible operating and maintenance areas.

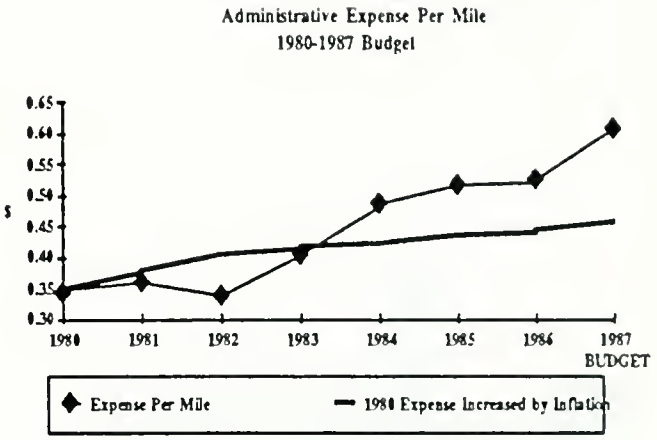
Maintenance



The Maintenance Department is responsible for the maintenance of both facilities and equipment. Maintenance expense per mile has increased greater than the rate of inflation since 1980. Most of the 1987 increase is attributable to new initiatives. On the bus side, maintenance expenses per mile for inflation increased about 1%. Despite the reduction in service levels, the elimination of air-conditioning on GMC coaches and the contracting out of Special Services, bus maintenance labor hours have only declined by 1.2%. In part this reflects problems caused by deferred maintenance and the aging of the GMC coaches.

In the rail mode, expense per mile adjusted for inflation has increased a significant 29.2% since 1980. One reason for this increase has been the substantial increase in electrical costs brought on by both increased rates and greater demand. Also, the increased fixed plant costs due to the opening of the O'Hare Line coupled with the greater sophistication of the new Budd cars have required greater resources.

Administration.



Administration includes the various CTA support roles. Inflation-adjusted administration expense per vehicle mile increased 17% from 1980 to 1986. Following a significant downturn in 1982, due primarily to the elimination of the security force and the transfer of the Travel Information Center to the RTA, administrative operating expenses have increased significantly.

Conclusions

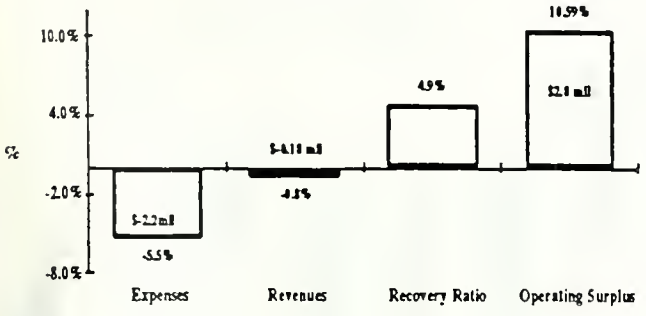
In summary, while total CTA operating expenses increased at only about one half of the inflation rate between 1980 and 1986, when service level reductions are taken into account, operating expenses per vehicle mile in this period grew at about the inflation rate. The growth in operating expense per mile for operations has been held under the inflation rate for every year. The growth in maintenance expense per mile has outpaced the rate of inflation over the period, but did decline in 1986. Finally, administration expense per mile, after decreasing significantly in 1982, has since increased rapidly over the inflation rate.

METRA SYSTEM PERFORMANCE

Resource Efficiency

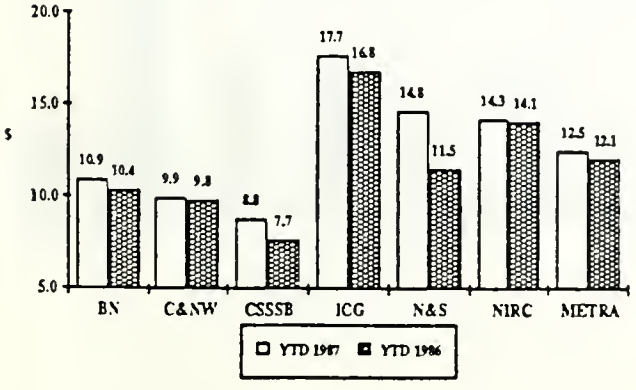
Metra's expenses for the first two months of 1987 were $2.2 million below budget while revenues were under budget, but by only $0.2 million. As a result, Metra's actual cost recovery ratio is 4.9% greater than the budgeted ratio. Expenses are below budget by $2.2 million in the areas of carrier operating expense, regional overhead and fuel.

Metra Actual vs. Budget
Thru February 1987



Although Metra's total expenses are well below budget for all carriers, operating expenses per revenue mile for the first two months of 1987 are up 4% from 1986. Norfolk Southern had the greatest increase of $3.22 per mile, an increase of 28%. Although the South Shore continues to have the lowest operating expense per mile, their year to date increase of 15% or $1.12 per revenue mile is the second highest increase for the system. Both the Norfolk's and the South Shore's increases are reported under total carrier expenses.

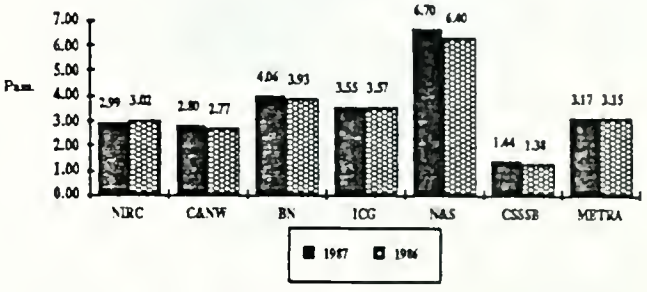
Operating Expense Per Revenue Car Mile
thru February 1987 vs. 1986



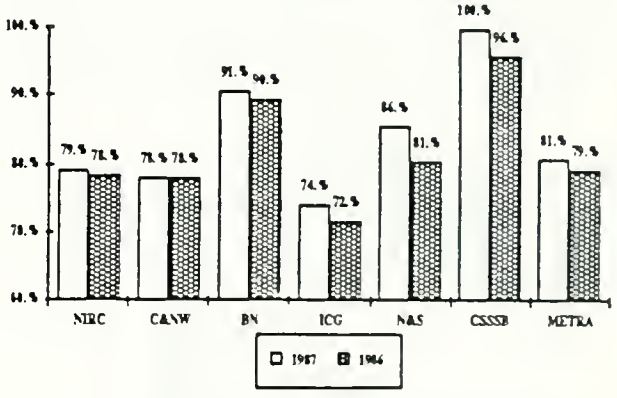
Service Effectiveness

All lines show slight improvements in passenger per mile performance with Chicago South Shore and Norfolk and Southern having the most significant improvement of 4.3%, and 4.7% respectively.

Passengers Per Revenue Mile
Thru February 1987 vs. 1986



Peak Period Capacity Utilization
Feb. 1987 vs. 1986

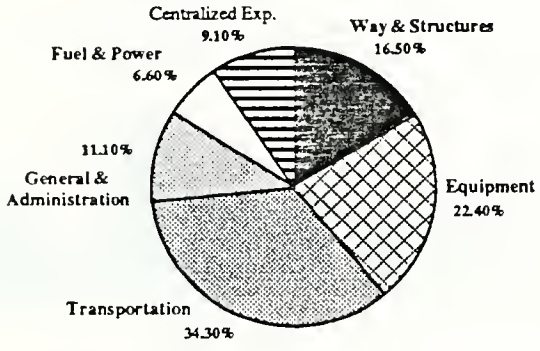


Metra's peak period capacity utilization report for February indicates that, for the most part, Metra service is operating with under utilized capacity. The South Shore is having capacity problems, reflecting continued problems with the quantity of service that the Northern Indiana Commuter Transportation District can afford to provide. Also, the Burlington Northern and Norfolk Southern have peak capacity utilization in excess of 80%. The other rail lines, which carry 75% of Metra's commuters, are operating with 80% or less peak capacity utilization.

Focus: Analysis Metra Expense Per Mile By Carrier and Program Area

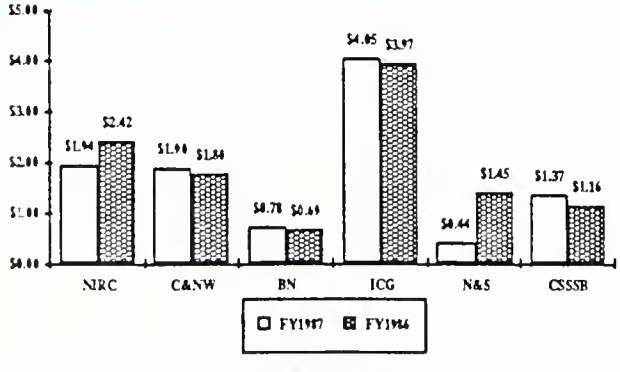
In order to analyze Metra expenses, they have been grouped into the six broad categories shown below.

Metra 1987 Budgeted Expenses



At the carrier level, analysis of expenses was performed on a per revenue mile basis in order to eliminate as much of the disparity due to size as possible. The analysis that follows contrasts the actual results for 1986 with the budgeted results for 1987. Obviously, it is not possible to draw many definitive conclusions regarding the results of such comparisons. However, this analysis does represent a starting point for a more in-depth review which will continue through the 1988 budget process.

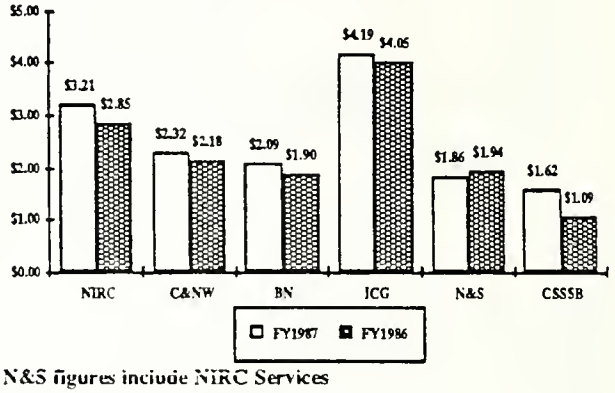
Way and Structure
Expense Per Revenue Mile*
1987 Budget vs. 1986 Actual



*ICG figures include substation maintenance

The major factors influencing the significantly higher Way and Structure expense for the ICG is the additional cost of maintaining the catenary system and the fact that very little freight service is provided on this line. Most of the Metra carriers are able to share some portion of their Way and Structure expense with freight operations. The primary reason for NIRC's relatively high 1986 expense was a track improvement program on the Milwaukee Rd.

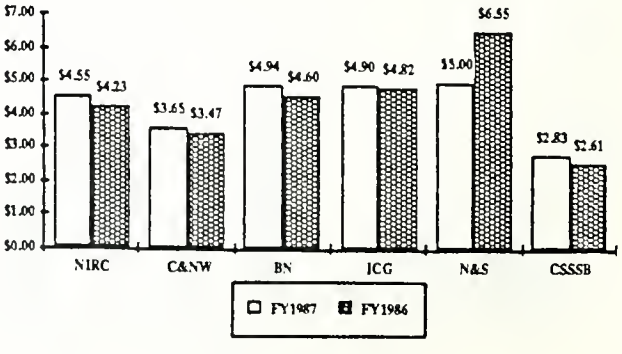
Maintenance of Equipment
Expense Per Revenue Mile*
1987 Budget vs. 1986 Actual



* N&S figures include NIRC Services

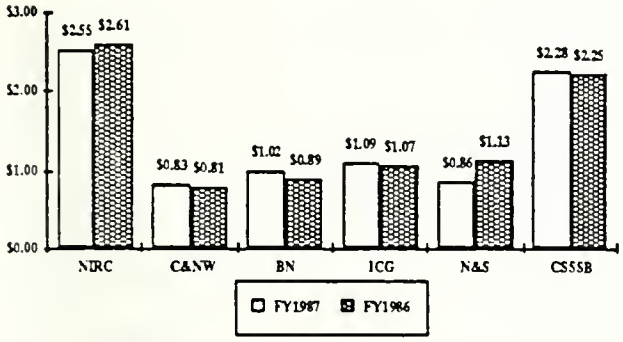
ICG also has the highest expense for maintenance of equipment on a per revenue mile basis. This may be related to the mechanical differences between electric equipment and diesel push-pull equipment, and this will be the subject of further review in coming months.

Transportation
Expense Per Revenue Mile
1987 Budget vs. 1986 Actual



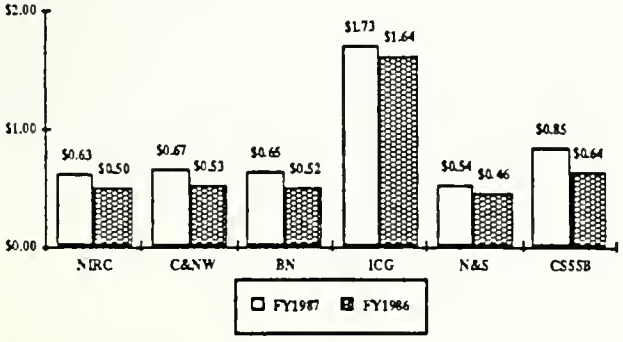
The 1987 budget included increases for every carrier for transportation expense per mile except for the Chicago South Shore. However, the Norfolk and Southern still has the highest transportation expenses per mile budgeted for 1987.

General and Administration
Expense Per Revenue Mile
1987 Budget vs. 1986 Actual



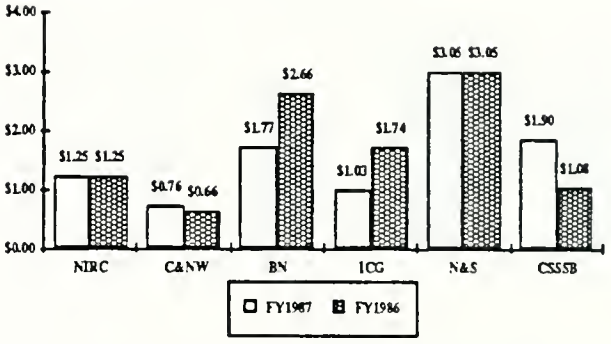
General and administration expenses for the Chicago South Shore and NIRC are significanly higher than the other carriers.

Fuel and Power
Expense Per Revenue Mile
1987 Budget vs. 1986 Actual



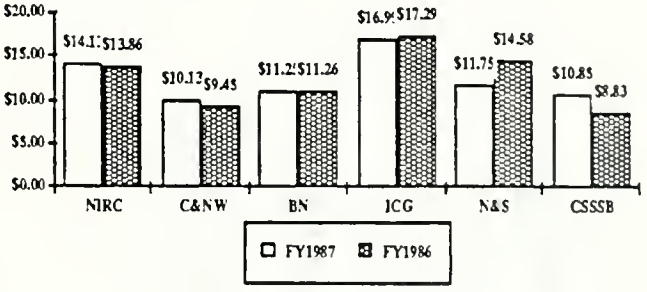
It is interesting to note that the two carriers with electrified service have the highest fuel and power costs per revenue mile. This issue will be subject to further analysis.

Centralized
Expense Per Revenue Mile
1987 Budget vs. 1986 Actual



For 1987 Norfolk and Southern has projected the highest centralized expense per mile for 1987. Both the Burlington Northern and ICG project substantial decreases for 1987, while the Chicago South Shore budget includes over 75% increase in centralized expenses on a per mile basis.

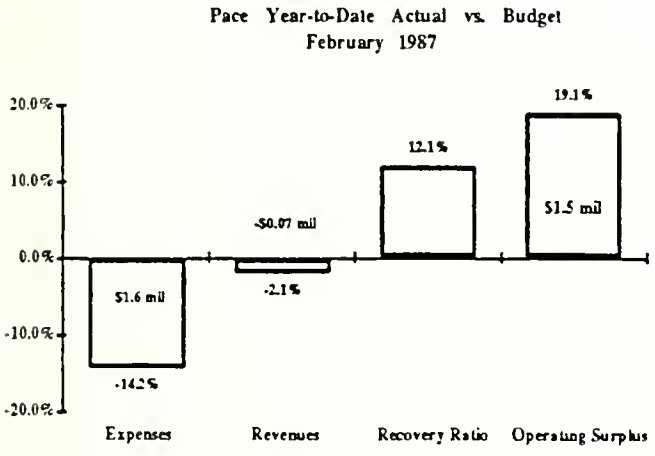
Total Expense Per Revenue Mile
By Carrier
1987 Budget vs. 1986 Actual



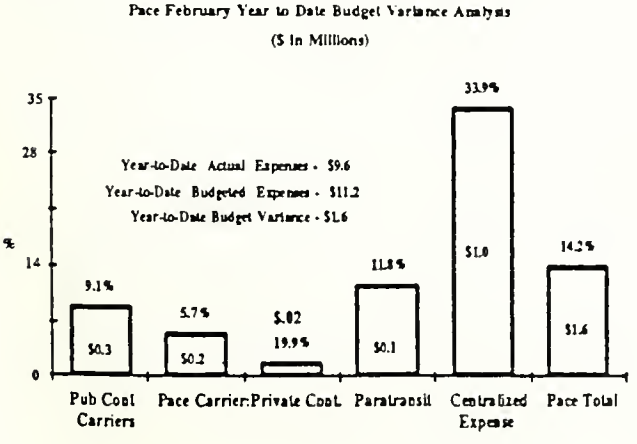
Given its performance in the individual cost categories, it is not surprising that the ICG ranked first in total expenses per revenues mile. Norfolk and Southern projects substantial decrease in 1987 for total expenses per mile, while the South Shore show an increase of approximately 23%, which will be analyzed in-depth.

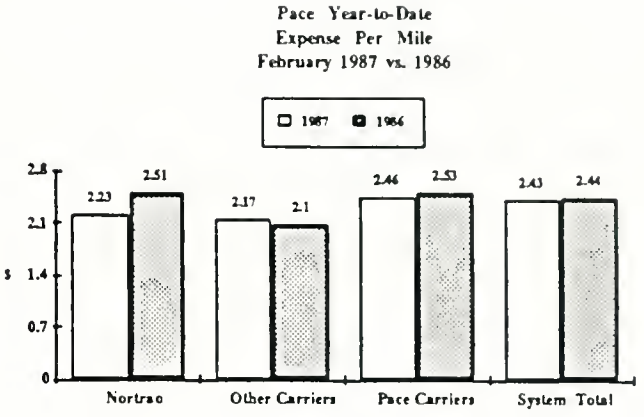
Resource Efficiency

Pace completed the month of February 19.1% or $1.5 million under budget on a year-to-date basis. This significant variance is due to a 14.2% or $1.6 million favorable expense performance. Pace total revenues were 2.1% or $66,000 under budget through February. Passenger revenues were 2.9% or $85,000 under budget for the two month period. The poor revenue performance reflects the continued drop in ridership for the Pace system.



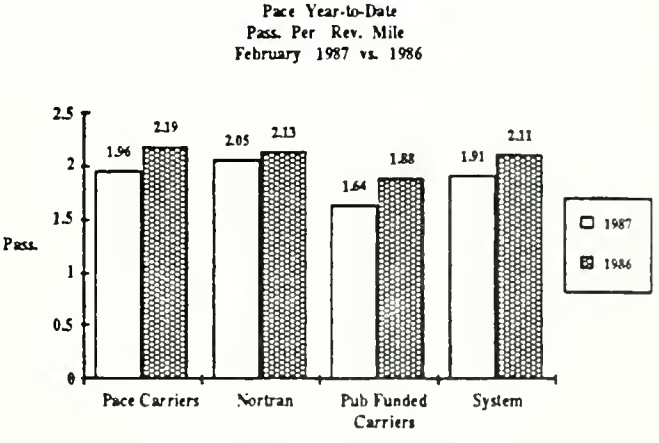
Expenses for all portions of the Pace system are performing well against budget. At the carrier level both the maintenance and operations areas are performing well under budget. Pace centralized expense has the most significant positive performance with a $1.1 million variance. This variance is composed of lower than budgeted expenditures in a variety of areas including: administration, insurance, fuel, and associated capital. The 1987 budget for centralized expense is reviewed in the focus portion of this section on the following page.





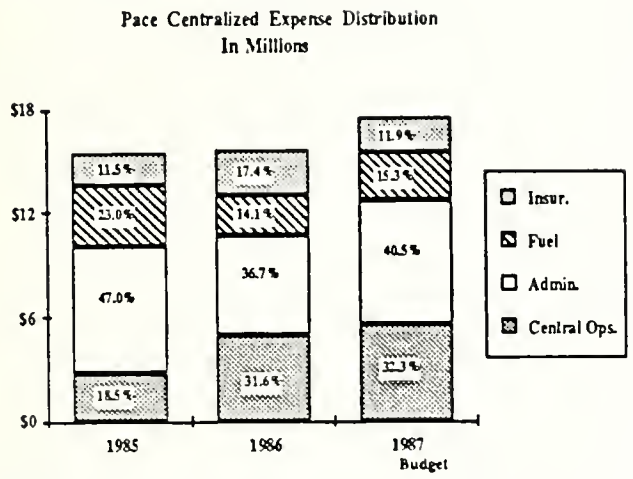
Pace carriers continue to perform well on a cost per mile basis against the prior year. All major carriers had a drop in expense per mile, while Pace's smaller publicly funded carriers showed a 3.3% increase over the prior year. Pace's two largest carriers, Nortran and Pace West, reported the greatest decline in expense per mile 11.2%, and 10.8% respectively. These declines appear to be evenly split between the operations and maintenance programs. The chart above does not include private contract carriers or paratransit carriers due to a lag in the reporting of mileage statistics for these carriers.

Service Effectiveness



Declining ridership has continued to affect Pace's service effectiveness. Systemwide passengers per mile dropped 9.5%. Both Pace carriers and Pace's smaller public carriers experienced declines of approximately 10%. Paratransit and private contract carriers are not included due, again, to a lag in the reporting of operating data.

Focus: Centralized Expenses



Centralized expenses are approximately 20% of the Pace budget. Since the reorganization of the RTA, Pace has centralized a number of functions in an attempt to gain economies of scale for the many transit systems they operate. The two major categories are Central Operations and Administration.

Central Operations

As the graph above illustrates, between 1985 and 1986 a considerable number of centralized expenses were shifted from administration to central operations. The central operations area is comprised of a variety of functions which we have broken into a four categories including:

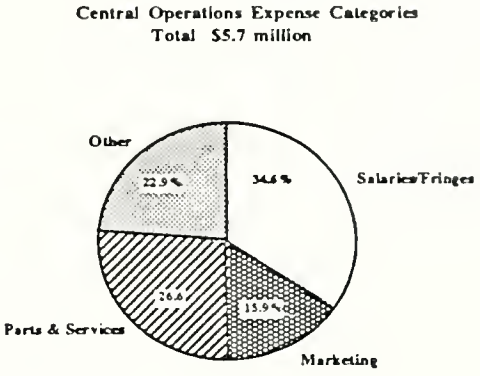
- Parts and Services
- Vehicle Maintenance and Operation Support
- Marketing
- Other

Parts and Services is primarily related to the blanket purchase of vehicle parts. Parts covered by blanket purchases include batteries, filters, and other bus parts which Pace uses on a regular basis. Also included are parts rebuilding services such as engine and compressor rebuild.

Vehicle Maintenance and Operations Support are Pace's operating, supervision, technical support and training staffs. The support staff provide oversight of the day to day operations of the Pace system as well as supply training programs and technical expertise to Pace carriers. This group accounts for nearly 100% of the salaries and fringes under Central Operations.

Marketing expenses have increased 48% or $295,000 between 1986 and 1987. This increase reflects Pace's expanded marketing program which includes a variety of promotions and more use of media, such as television, in 1987.

The other category is composed of a variety of functions including ticket printing, building repairs, and other support.



Administration

Pace's administrative expenses total $7.1 million or 40.5% of total centralized expenses. This category generally consists of traditional administrative components including accounting, finance, and personnel. In 1986 a variety of functions which Pace had previously accounted for in the administrative area were moved to central operations. This change caused the administrative expenses to drop 20% in 1986. However the administrative budget subsequently increased by 23% in 1987, primarily due to additional personnel and data services expense. Staffing levels for bus operations and finance and administration increased by 3 persons each. Pace is alsoundertaking a major computerization program which has increased data services expense by $382,000 or 80% over 1986 actuals.